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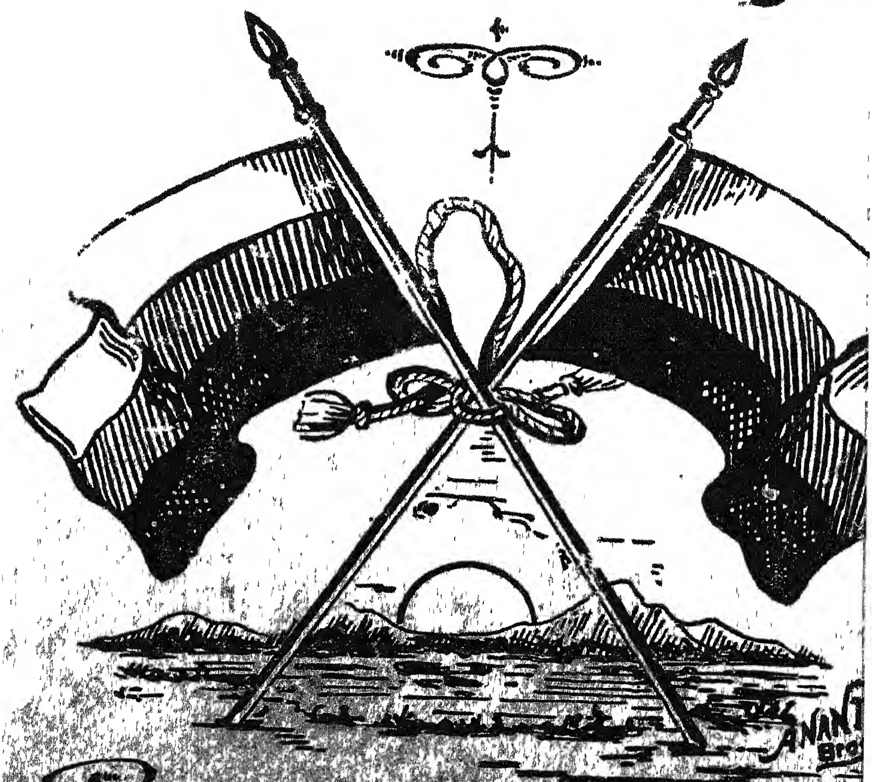
FEDERATION OF INDIAN CHAMB OF COMMERCE AND INDUSTRY.

INDIAN CURRENCY & EXCHA

1914 — 1930.

How Government have Manageo



1931

FEDERATION OF INDIAN CHAMBERS OF
COMMERCE & INDUSTRY.

INDIAN CURRENCY AND EXCHANGE

1914—1930

HOW GOVERNMENT HAVE MANAGED IT

1931.

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FOREWORD

The Committee of the Federation of Indian Chambers of Commerce and Industry had for some time under consideration, the question of publishing a concise statement giving facts and figures in connection with the 'management' of India's currency from 1914 up-to-date. The continued enquiries from many quarters for information regarding total contractions made and gold resources depleted have hastened the Committee's decision in this matter. The proposal to devise 'safeguards' in connection with the currency policy of India in the future, as raised at the Round Table Conference in London last December made it imperative for the Committee to put forward such a publication without delay.

Mr. Paras Nath Sinha, B. A., LL. B., to whom this was mentioned readily agreed to compile such a publication. His quiet but sustained and systematic study of the subject during the last several years specially equipped him to undertake the work. The Committee, while thanking him most cordially for his valuable assistance so willingly rendered congratulate him on his being able to compress the facts and figures relating to the period 1914—1930 in a few pages. They have no doubt that Mr. Sinha's labours will be fully appreciated by the public.

By order of the Committee of the Federation,

Delhi. D. G. MULHERKAR,
7th April, 1931. *Secretary.*

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CHAPTER I

1914—1919.

At the time of the declaration of War, India had a gold standard—technically known at the time as the gold exchange standard—represented by the sovereign with rupees definitely related to it at the ratio of 15 to 1. The position of the rupee here was similar to that of the shilling *vis-a-vis* the pound sterling. It is true that the rupee was unlimited tender, but then according to the Fowler Committee which had considered this matter, what was important was the limitation of the total issue, not the limitation of the amount for which rupees could be a legal tender in any one payment. Still the Committee did not express itself against the imposition at any time of a limit on the amount for which rupees should be a legal tender. It only said: "For *some* time to come, no such limitation can be contemplated." There were instances of countries at the time like France and the United States which admitted their silver coins to unlimited tender. In any case, the Committee gave a clear indication of the character of the silver coinage when it said: "Under an effective gold standard rupees would be token coins, subsidiary to the sovereign." Whether they have remained subsidiary or not, the following pages will show.

The Pre-War Currency

The "effective establishment of a gold standard and currency" was the paramount object which the Fowler Committee set before the Indian authorities, and the recommendations of the Committee were accepted in their entirety by the latter. The system which came to be evolved in India, however, was something quite different, and in actual contravention of what the Fowler Committee had un-

animously recommended and the Government of India had committed itself to. That Committee had considered schemes for establishing a gold standard *without* a gold currency, and finally rejected them. What they recommended was that "the Indian Mints should be thrown open to the unrestricted coinage of gold." Owing to the opposition of the British Treasury, however, the Government of India dropped their proposals for establishing in Bombay a branch of the Royal Mint for the coinage of sovereigns. Explaining the position, their Despatch No. 110 of the 16th May 1912 said:–

> "No public explanation was given in India of this sudden recession from what had hitherto been regarded as an essential feature of the currency policy inaugurated in 1893 and definitely established on the recommendations of the Currency Committee of 1898."

The Report of the Chamberlain Commission was signed in February 1914. Sir James Begbie who was a member of it wrote a Minute of Dissent on the subject of the currency policy, from which some extracts will bear reproduction here:–

> "The public have absorbed during the last 12 years approximately equal amounts of rupees and sovereigns, but the demand for sovereigns has rapidly increased during the last four years. These recent gold requirements show an important change in the currency needs of the people and indicate a preference for gold over rupees."

* * *

> "It is no longer possible to say that the token rupee is preferred by the Indian public and satisfies their currency requirements in face of the fact that

they have latterly exhibited so strong a desire for gol as the statistics indicate. At least there is not nov such general confidence in the rupee as would . . . . alone warrant large extensions of the toker currency."

* * *

"For a country which takes gold in great quantities an extensive token currency is most unsuitable. It has the usual effect of driving gold out of circulation. It has the still greater disadvantage that it keeps the gold out of useful employment."

The following figures indicate the absorption of the various forms of currency during the five years preceding the War:---

In Lakhs of Rupees.

Year	Rupees	Notes	Sovereigns and half-sovereigns	Total
1909-10	13,22	5,03	4,31	22,56
1910-11	3,34	19	2,15	5,68
1911-12	11,50	4,44	13,33	29,27
1912-13	10,49	2,71	16,65	29,85
1913-14	5,32	2,65	18,11	26,08
Average for 5 years.	8,78	3,00	10,91	22,69

The extent of the actual circulation of gold coin before the War was never ascertained, but the Chamberlain Commission reported:—"There is undoubted evidence that in the last four years there has been a distinct increase in the use of the sovereign for purposes of currency in certain provinces and districts, such as parts of the Bombay Presidency and of the U. P., the Punjab and Cochin in the Madras Presidency."

Imports of Treasure

The net imports of treasure in the same years were as follows:—

In Lakhs of Rupees.

Year	Gold bullion & coin	Silver bullion
1909-10	21,66.9	9,36.4
1910-11	23,97.9	8,57.1
1911-12	37,76.8	5,29.4
1912-13	37,57.9	6,57.3
1913-14	23,32.3	6,24.5
	1,44,31.8	36,04.7
Average for 5 years	28,86.0	7,21.0

The net exports of private merchandise over this period had averaged about Rs. 78,30 lakhs. This balance had been adjusted by imports of funds and treasure in the following way:

Average	(Council Bills	Rs. 41,35	lakhs
	(Treasure	,, 36,08	,,
	(Govt. Securities	,, 87	,,
		Rs. 78,30	lakhs

We can thus see at a glance the part usually played by imports of gold and silver in the adjustment of India's favourable balance of trade in the pre-war years.

The War Period

We now come to the War period.

Imports from Germany and Austria now entirely ceased, while imports from the U. K. and other countries were naturally limited. It was only the abnormal prices prevailing which maintained the value of this trade. Exports, on the other hand, were in great demand. The Allied Powers required food-stuffs and raw materials in very large quantities, and but for the difficulties of transport and finance, the favourable trade balance would have been much larger than it was.

Exports and Imports of Private Merchandise

In Lakhs of Rupees

	Exports	Imports	Net Exports.
1913-14	2,48,88	1,83,25	65,63
1914-15	1,81,59	1,37,93	43,66
1915-16	1,97,38	1,31,99	65,39
1916-17	2,45,15	1,49,62	95,53
1917-18	2,42,56	1,50,42	92,14
1918-19	2,53,85	1,69,03	84,82

The net exports of private merchandise over the period 1914-15 to 1918-19 averaged Rs. 76,31 lakhs which was actually less than the figure for the pre-war quinquennium. To realise its significance, however, we have to see what the net imports of treasure were. The following table gives the necessary information :—

In Lakhs of Rupees

	Gold bullion and coin	Silver bullion
1914-15	8,45.5	10,01.3
1915-16	4,89.4	5,57.6
1916-17	4,19.8	—2,16.0
1917-18	21,45.9	1,45.6

1918-19	2.3	5.7
	39,02.9	14,94.2
Average for the 5 years	Rs. 7,80 lakhs	Rs. 2,99 lakhs

In these five years the net imports of treasure were valued at about Rs. 54 crores as against Rs. 180 crores in the five years preceding the war. There were several factors to account for this drop, the most important of which was the very great difficulty of obtaining gold. The free market in London had disappeared and there were restrictions in every belligerent country on its export.

Price of Silver

This, in any case, would have reacted on the price of silver. But there was, from 1914 onwards, a great shortage of its supply. The decline in production coinciding with a heavy world demand, especially from India, made the price of silver reach vertiginous heights. The highest price in London of standard silver per oz. reached in those years was as follows :---

1914	$27\frac{3}{4}$d.
1915	$27\frac{1}{4}$d.
1916	$37\frac{1}{8}$d.
1917	55d.
1918	$49\frac{1}{2}$d.
1919	$79\frac{1}{8}$d.
1920	$89\frac{1}{2}$d.

The decline in the import of precious metals intensified the demand for currency. But the large balance of trade in India's favour was not the only cause at work. There were large, very large disbursements here on behalf of His Majesty's Government, etc., as India had been made the

base of military operations in Mesopotamia, Persia and East Africa. She had also to provide currency for meeting civil expenditure in occupied territory and for financing purchases here on behalf of certain Dominions and Colonies and for the United States.

Gold as Currency

After losing about £. 1,800,000 gold between the 1st and 4th August 1914, the Government had suspended its issue to private persons. The sovereign commanded a premium in the market. On two occasions attempts were made to prevent a further diminution of rupee stocks by the issue of gold. At the beginning of 1917 gold bullion of the value of about £. 4,000,000 was sold and subsequently sovereigns to the amount of about £. 5,000,000 were issued for the purchase of crops. Again from February 1918 sovereigns and gold mohurs amounting to nearly £. 6,000,000 were issued for the financing of certain crops. The acquisition of imported gold had been provided for by an Ordinance and temporary arrangements had been made for the coinage of gold in Bombay. But the premium on gold precluded its use as currency and the alternatives, therefore, were notes and silver.

Note Circulation

There was in fact a large increase in the note circulation. The following figures illustrate this :—

(In Lakhs of Rupees.)

Date		Gross Note circulation	Composition of Paper Currency Reserve				Percentage of total metallic reserve to gross note circulation.
			Silver	Gold	Securities		
					India	England	
31st March	1914	66,12	20,53	31,59	10,00	4,00	78.8
,,	1915	61,63	32,34	15,29	10,00	4,00	77.3
,,	1916	67,73	23,57	24,16	10,00	10,00	70.6
,,	1917	86,38	19,22	18,67	10,00	38,49	43.8
,,	1918	99,79	10,79	27,52	10,00	51,48	38.4
,,	1919	153,46	37,39	17,49	16,08	82,50	35.8
31st December	1919	182,91	43,67	39,71	17,03	82,50	45.6

At the commencement of the War, the invested portion of the Paper Currency Reserve was limited by law to 14,00 lakhs of rupees. Between November 1915 and December 1919, the legal limit was increased to 120 crores. During the period the gross circulation increased nearly three-fold while the percentage of metallic backing decreased by nearly one-half.

Silver Purchases

The Government purchased large quantities of silver for coinage into rupees. Between April 1916 and March 1919, over 300,000,000 standard ozs. were bought in addition to 200,000,000 fine ozs. purchased under the Pittman Act from the U. S. Government. The latter arrangement specially enabled the Government to tide over a very critical period in the history of Indian currency. The export of silver coin and bullion, except under license, was prohibited and it was made illegal to use silver and gold coin for other than currency purposes. The import of silver on private account, except under license, was also prohibited on the 11th July 1917. An entirely novel feature was the issue of Rs. 2½ and one-rupee notes and an extension of the use of nickel for coin of small denominations.

Rise in Exchange

The rupee contains 165 grains of fine silver, and with exchange at 1/4d. it reaches the melting point as soon as the price of silver is about 43d. From 3rd January 1917, Council drafts were sold at fixed rates, the rate for immediate T. T. being 1s. 4¼.d. In August 1917, silver went up to 46d. To prevent the token silver currency becoming more valuable as metal than as coin the authorities at once raised the exchange rate to 1s. 5d., and henceforward the rate was made to follow the price of silver. The standard ratio was

discarded and the sovereign which had been made India's monetary yard-stick in 1893 was now a varying measure of value, tied to the apron-strings of silver. The successive steps by which the rate was raised are shown in the following table :—

	Immediate T. T.
3rd Jany. to 27th Augt. 1917	1s. $4\frac{1}{4}$d.
28th Augt. 1917 to 11th April '18	1s. 5d.
12th April 1918 to 12th May '19	1s. 6d.
13th May to 11th Augt. 1919	1s. 8d.
12th Augt. to 14th Septr. 1919	1s. 10d.
15th Septr. to 21st Novr. 1919	2s.
22nd Novr. to 11th Decr. 1919	2s. 2d.
12th December 1919	2s. 4d.

Depreciation of Sterling

During the war there were special arrangements between the British and American Governments under which the sterling exchange on America was pegged at $4. 76 7/16 Government support of exchange was withdrawn on 20th March 1919 and the result was a divorce between sterling and gold. On 17th December 1919, for instance, the £. sterling was equivalent to only $. 3.83 as against its par value of $. 4.8666. The fall in sterling exchange had the effect of raising the London quotation for silver.

Rupee Linked to Gold

In pre-war days, sterling and gold were for practical purposes much the same thing ; and no one asked whether the rupee was linked to the one or to the other. But the subsequent divergence between the two gave rise to the question ; and as the position may not otherwise be clear, it may be stated once again that we were linked to gold, not to sterling. In the very beginning what was provided was that

the sovereign and the half-sovereign—not the pound sterling or the five-pound Bank of England note—would be legal tender in India. It was nowhere said that local currency would be issued against a tender of pound sterling; on the contrary, it was expressly laid down that it would be issued against so many grains of gold. The old exchange rate was 1/4d. gold; therefore when we say that the melting point of the silver in the rupee was 43d., we mean 43d. gold, not 43d. sterling. To view things in the right perspective, for any sterling price of silver we have to calculate the corresponding gold price.

What Other Countries Did

India was made to sacrifice its standard at the altar of its token currency. We may just pause to consider what other countries faced with a similar problem did at the time. Mr. B. F. Madon, in his evidence before the Hilton Young Commission, said :—

> " If it (the rupee) was a token coin, then the solution with regard to the price of silver should be the solution which practically every other country had to adopt and did adopt when their token silver coins went over the silver bullion parity. It is not only India that had to do it. The Straits had to do it, Japan had to do it, the Phillipines had to do, and during this war even England had to do it. So I would urge that the emphasis laid on the price of silver is wrong and that the right solution was to change the proportion of silver in the token or to stop giving silver coins altogether and only give notes as was done actually by many countries."

"The case of Egypt is much more to the point. Egypt has a population which is perhaps a great deal more turbulent, a great deal more ready to resort to violent methods than the Indian population is, and in Egypt inconvertibility was declared the very first day that the war began and notes circulated freely and there was absolutely no trouble."

Remedies That Were Not Tried

While recording what was actually done, we may as well take note of what was not done, especially when experts have said that a different line of action might have averted the necessity of repealing or modifying the legal standard which had obtained in the country for about twenty years.

(1) Since the world was unable to pay India in international money, one alternative was the flotation of loans here to meet the commitments, but this was not adopted.

(2) As regards the high price of silver, the view of Mr. (now Sir) D. M. Dalal, the only Indian member of the Babington-Smith Committee, was that "this price has been made possible only by the prohibition of exports of silver from India and by the raising of the rate of exchange, which has the effect of lowering the rupee value of all silver held (in India) and making exports unprofitable." Indian sales would have prevented the great rise in price, but India was not permitted to enter the market as a seller. The objection on the ground that it might cause a depletion of silver currency had not the same force in India as in other countries where there was no such redundancy of token coins. India could not possibly have sold a large amount to the world, but the mere fact of India being a seller would have broken the strength of the silver market.

(3) Even after the War was over and the embargo on gold exports had been removed in the principal money centres, Government took no steps to restore the pre-war standard. The U. S. Government removed the embargo on the 9th June 1919, and the very serious changes in the exchange value of the rupee came after that.

(4) The Secretary of State did not stop the practice of selling bills beyond his own requirements. Even in pre-war days the practice had been criticised as diverting payments of India's foreign balances from gold to silver. The criticism gained force now. Mr. Dalal said in his Minute of Dissent :—

> "If it was impossible to meet trade demands without breaking the standard, that would be a reason for declining to meet them, but hardly a reason for meeting them and breaking the standard."

(5) The authorities could have reduced the fineness of the token coin following the example of other countries, but they did not take this course.

Limitation of Council Bills

From 20th December 1916, there was a limitation of the amount of Council bills sold by the Secretary of State, while from the 3rd January 1917, they were sold at a fixed rate, the sale being confined to banks and firms on the 'Approved List.' An over-buying guarantee was also given to the Exchange Banks so that they might buy export bills in excess of their purchases of exchange in the other direction. This scheme of official control was a complete

departure from the system of remittance that prevailed before the War.

'A War Sacrifice'

The new exchange difficulty which faced the Government during this period chiefly arose, in the words of Sir William Meyer, the then Finance Member, "from an essential service which India was rendering to the Empire in financing war expenditure abroad and so assisting in securing the United Kingdom's exchange position" Addressing the old Legislature before the difficulty had assumed very large proportions, he said :—

> "The inconveniences arising therefrom, however acutely they may be felt, will therefore, I trust, be readily accepted as a war sacrifice which India has made for the Empire."

Absorption of Currency

The following table shows the absorption of currency during the years 1914-15 to 1919-20 :—

(In Lakhs of Rupees.)

Year.	Rupees.	Notes.	Sovereigns and half-sovereigns.	Total.
1914-15	—6,70	—6,01	8,43	—4,28
1915-16	10,40	9,23	29	19,92
1916-17	33,81	13,89	3,18	50,88
1917-18	27,86	17,22	14,26	59,34
1918-19	45,02	49,29	5,81	1,00,12
1919-20	20,	20,2900	—3,32	36,97

Sovereighs, however, did not circulate as currency to any material extent during this period and should be left out of account. The return of currency in 1914-15 was a reflection of the initial stress of the crisis brought about by the War. Reverse Councils had to be sold to support exchange. There were periods of weakness of exchange also in 1915-16 and 1918-19. The contraction of currency on these occasions was as follows :—

	Reverse Councils.	Rs. Received.	Contraction of currency.
1914-15	£ 8,707,000	13,16 lakhs	105 lakhs
1915-16	£ 4,893,000	7,38 ,,	34 ,,
1918-19	£ 5,315,000	7,08 ,,	nil

Government Balances

On the 31st July 1914, the Government balances and Reserves stood as below :—

(In lakhs of rupees.)

		India.	England.	Total.
Treasury		29,93	3,76	33,69
Paper Currency Reserve	Silver	33,93	—	33,93
	Gold	18,36	9,15	27,51
	Securities	10,00	3,99	13,99
Gold Standard Reserve	Silver	6,00	—	6,00
	Gold	—	7,09	7,09
	Securities	—	25,47	25,47
Total P. C. R. and G. S. R.	Silver	39,93	—	39,93
	Gold	18,36	16,24	34,60
	Securities	10,00	29,46	39,46

On the 30th September 1919, the corresponding position was as below :—

(In lakhs of rupees.)

		India.	England or abroad.	Total
Treasury		14,18	22,45	36,63
P. C. R.	(Silver	50,97	—	50,97
	(Gold	18,45	2,92	21,37
	(Securities	17,03	82,50	99,53
G. S. R.	(Silver	—	—	—
	(Gold	—	—	—
	(Securities	—	54,67	54,67
Total P.C. R. and G. S. R.	(Silver	50,97	—	50,97
	(Gold	18,45	2,92	21,37
	(Securities	17,03	1,37,17	1,54,20

Investment in British Treasury Bills

The expansion of the note issue in India was very largely based on the security of British Treasury Bills. This was in effect a forced loan from the Indian people. Sir William Meyer speaking in March 1917, when India's total holding in British securities was much lower than the figure attained in 1918-19, observed :—

> "Few people, I think, realise the extent to which we have been able to assist His Majesty's Government by these operations."

The British Treasury did not borrow directly from the Indian people ; it got India's money on better terms in England.

Set-back to Prosperity

With the closing months of 1919-20 which saw the appointment of the Babington-Smith Committee, begins another chapter in the history of Indian exchange and currency. The period which we have been studying was

for India a period of great economic prosperity, as India was able to supply produce and material which were urgently needed for the prosecution of the war. That prosperity, however, received a set-back from the repeated alterations in the rate of exchange, especially from the attempt to fix it at 2s. (gold) after the war was over.

The Inflation in India

The very large additions to the currency which this period witnessed were not an inflation in the sense in which the term was generally used in the currency literature of the time. As one authority has put it :—

> " The inflation of the Indian currency during the war was a genuine inflation as distinguished from the artificial inflation witnessed in most of the belligerent countries. It arose from the balance of indebtedness due to India. The breakdown of the system was not due to war expenditure by the Government of India. It was caused by the acceptance in London of payments due to India in the form of sterling which could not be transmitted to India by the usual methods."

Almost all the additions to currency, however, were in the form of two kinds of token, mutually convertible. Gold, as we have already seen, had gone out of circulation, and the branch of the Royal Mint opened in Bombay during the War for the coinage of sovereigns and half-sovereigns had been closed. The goal of the Indian currency system as envisaged in the Report of the Fowler Committee was as far off as ever, if not farther.

—:o:—

CHAPTER II

1920—1926.

The Babington-Smith Committee was appointed on the 30th May 1919. Barring the appointment of the Cunliffe Committee in England, this was almost the first instance in which an attempt was made by any country at the time to set right its currency and exchange. It was represented to the Committee that the conditions were abnormal and they should not recommend any action which would mean a drastic change in the system. We quote the following warning given by the representatives of the Exchange Banks:---

> "Our opinion is that the conditions we have been going through during the last four years—the war period—have been absolutely artificial in every way; they are artificial to-day, and it hardly seems reasonable to suppose that in the light of artificial conditions you are going to upset a system which has been in force with much success from 1893 to 1914. It seems unreasonable to do that in the light of the artificial conditions which have been ruling, and which have not yet disappeared. We feel that it is absolutely necessary to get back to a state of normality before any attempt is made in any way to alter principles laid down in 1893 and as brought up to date in the Chamberlain Commission Report of 1914. In view of the experience that we have been through during the last four years, we cannot see any ground whatever for making a drastic change in India's currency system.

"When things begin to move in India, they move very quickly, particularly in a financial way; we have all had experience of that. As to the result of what the changes may be, it is impossible for any of us to foretell, but when a change comes, it comes very quickly, and you may then look at a thing from a totally different perspective to that in which you look at it to-day. Your perspective to-day is warped; you are living in an artificial atmosphere. If you get away from that, your horizon may be totally different from what it is today. Judged in the light of things as they appear to-day, I would not say for a moment that we should formulate or attempt to formulate an opinion now as to what the permanent policy should be, which you may have to bring into force three years hence. It would be a waste of time in my opinion."

2s. Gold Rate

The warning, however, had no effect on the Committee. The most important of their recommendations, made in December 1919, was: "The stable relation to be established between the rupee and gold should be at the rate of Rs. 10 to one sovereign," though this was qualified by the remark :—"If contrary to expectation, a great and rapid fall in world prices were to take place, and if the costs of production in India fail to adjust themselves with equal rapidity to the lower level of prices, then it might be necessary to consider the problem afresh."

Against the recommendation of a 2s. gold rate, the only Indian member of the Committee strongly protested. His conclusion was that the money standard in India should remain unaltered; that is, the standard of the sovereign and

gold mohurs with rupees related thereto at the ratio of 15 to 1.

The Secretary of State accepted the majority recommendation; and on the 2nd February 1920, the Government notified the fixation of the acquisition rate for gold imported into India at Rs. 10 for each sovereign or one rupee for 11·30016 grains of fine gold. The official rate of exchange had been 2s. 4d. for some time, but with this announcement, exchange rose to 2s. 8½d. which was about 1d. below the theoretical parity of the 2s. gold rupee as measured by the London-New York exchange, which, as noticed before, had been "unpegged" in March 1919.

Speculative Demand for Remittance

The high sterling parity of the rupee was the signal for a vigorous demand, mostly speculative, for 'homeward' remittance. Even when the official rate was 2s. 4d. there had been a demand for Reverse Councils and these had been sold to the amount of £.5,394,000. But the new exchange rate stimulated the demand, and Reverse drafts were sold weekly from 5th February to 28th September 1920, up to a total amount approximately of £50,000,000. For a considerable period the rate fixed on the theoretical gold parity was higher than the current market rate, but later the attempt to hold the rate at 2s. gold was abandoned and from 24th June 1920 the price of Reverse drafts was based on 2s. sterling. In September 1920 it was decided to suspend efforts to maintain the exchange value of the rupee by the sale of drafts on London.

On the 2nd January 1920, the offer of £1 million of Reverse Councils was not fully taken up. On the 15th, while

the offer was £ 2 millions, tenders did not exceed £ 300,000. On the 5th February 1920, the amount offered was £. 2 millions, but tenders received exceeded £ 32 millions. At the following sale at which the rate for immediate telegraphic transfers was 2s. 10 27/32d. the amount offered was £5 millions against which £41 millions were tendered for. From then onwards the weekly offer was £2 millions which was every time largely over-subscribed. On the 18th March the tenders amounted to £153½ millions. The figures show the extent of the speculative demand for remittance set up by the 2s. rate.

Reverse Councils Sold

In 1919-20 and 1920-21 the total amount of Reverse Councils sold was £55,532,000. From this Government realised Rs. 47,14 lakhs in India. The entire amount of sale was in the first place met from the Secretary of State's treasury balance and the sale proceeds were credited to the treasury balance in India. Between March and October 1920, the Secretary of State drew £46,650,000 from the Paper Currency Reserve in England. Here in India, currency was contracted to the extent of Rs. 34,68 lakhs and to fill the gap in the Reserve, *ad hoc* treasury bills to the extent of Rs. 34,05 lakhs were issued. At the rate of 1/4d. the amount of sterling sold for Rs. 47,14 lakhs should have been about £31,426,666—so the price paid for the attempt was a sum exceeding £24 millions sterling.

Speaking about these sales, Sir Malcolm Hailey as Finance Member in his Budget speech on 1st March 1921 said :—

"One must . . . admit that the conditions under which Reverse Councils were at first sold gave a

powerful stimulus to the demand for remittance of funds from India to England, and aggravated the deficiency in the supply of exchange available to meet the demand. We have frequently been asked to explain how far the persistence in the selling of Reverse Councils on the system first adopted was due to our deliberate choice or how far the responsibility lay with the Home authorities. Particular emphasis has been laid on the failure to adopt the system of sale by competitive tender. I regret that it is not within the power of Government to answer these inquiries."

Towards the close of the year 1919-20 and during 1920-21 extensive use was made of post office facilities for remitting money to England. Ordinarily such transactions used to result in net disbursements in India; but during 1920-21 they resulted in net receipts in India of 5,90 lakhs.

Sales of Gold

Mention may be made here also of sales of gold by Government in 1919 and 1920, whose objects were "to reduce the internal premium on gold and so to facilitate the establishment of the new ratio and secondly to support exchange by reducing imports of gold." The total amount thus sold was

1919-20	Rs. 21,66·5 lakhs
1920-21	Rs. 33,83·1 ,,

Some of the gold was imported by Government and some by private agency but acquired by Government. The price obtained at the sales was generally on a lower level than the bazaar price. For instance:—

Date of sale.	Minimum rate of accepted tenders.			Average rate of accepted tenders.			Price of country bar gold in Bombay bazaar.		
3rd September 1919	25	8	0	26	12	1	28	10	0
19th February 1920	16	2	3	21	9	1	23	4	0
3rd March 1920	18	8	0	18	12	4	21	7	0

The loss incurred by such sales must also be counted as part of the price which India paid for the attempt to fix exchange at 2s. gold. The control over private trade in precious metals was removed during 1920.

Adverse Trade Balance

By the end of June 1920 the balance of trade had begun to turn against India. The year 1919-20 recorded a favourable balance in respect of India's private trade in merchandise of about Rs. 120 crores which was a record figure. The next year, however, had a different tale to tell. The value of India's exports fell from about Rs. 330 crores to about Rs. 258 crores, while the stream of imports increased from Rs. 208 crores to Rs. 336 crores. The net *imports* of private merchandise during the period thus totalled about Rs. 78 crores. Mr. Dalal in his Minute of Dissent had said :—

> "The probabilities are that with the higher sterling cost of the rupee the demand for Indian produce will fall off, while remittances from India being cheaper in rupees imports will be stimulated. If these probabilities should materialise, India's trade balances will become less favourable to her than they have been, or it may be the trade balances will turn against her."

The prophecy was literally fulfilled.

The Controller of Currency in his report for 1920-1 said:—

"The collapse of exchange within twelve months from the level of 2s. 4d. prevailing in April 1920, to below 1s. 3d. was critical for importers, many of whom had ordered goods when exchange was high without fixing their exchange and who were unable or unwilling to settle at the low rate prevailing when the goods arrived. At the close of the year the Indian ports remained congested with imported piece-goods, motor cars and other articles of which delivery had not been taken."

Exports and Imports

The exports and imports of private merchandise and treasure in the years 1921-22 to 1926-27 were as under :—

	Merchandise (lakhs of Rupees)		
	Exports	Imports	Net Exports
1921-22	2,45,44	2,66,34	—20,90
1922-23	3,14,32	2,24,31	90,91
1923-24	3,61,91	2,17,03	1,44,88
1924-25	3,98,36	2,43,18	1,55,18
1925-26	3,85,33	2,24,20	1,61,13
1926-27	3,09,45	2,29,98	79,47

	Net Imports of Treasure (lakhs of Rupees)		
	Gold	Silver	Total
1921-22	—2,79	14,95	12,16
1922-23	41,18	18,17	59,35
1923-24	29,19	18,38	47,57
1924-25	73,18	20,06	93,84
1925-26	34,85	17,15	52,00
1926-27	19,40	19,79	39,19

2s. Rate on Statute-Book

After the sale of Reverse Councils on 28th September 1920 the Government decided to withdraw for the time being their offer of sterling drafts on London. Undeterred, however, by the failure of their administrative attempt to fix exchange at 2s. gold, they placed at about the same time on the statute-book a measure giving formal effect to the new ratio. In other words, the objective remained the same; only active measures to keep exchange up to the statutory level by the sale of Reverse drafts were suspended. In the words of Mr. C. H. Kisch, Financial Secretary, India Office, "though the economic tendencies that were operative during these years shattered the scheme of the Babington-Smith Committee, Government felt it incumbent upon itself to take such indirect measures as might tend towards checking the fall in exchange and as might create conditions favourable to its gradual recovery."

Budget Deficits

There were heavy deficits in the budget of the Government of India at the time, as the following table will show:-

1918-19	..	Rs.	5,73	lakhs
1919-20	..	,,	23,65	,,
1920-21	..	,,	26,01	,,
1921-22	..	,,	27,65	,,
1922-23	..	,,	15,02	,,
		Total Rs.	98,06	,,

For this the general increase in the cost of administration, the Afghan War in 1919 and the attempt to fix exchange at 2s. gold were mainly responsible.

Budget equilibrium was restored in 1923-24 chiefly by means of a considerable increase of taxation and heavy borrowings.

Contraction of Currency

Among "conditions favourable to the gradual recovery of exchange", spoken of by Mr. Kisch, the most important was monetary stringency; and it became now the aim of the currency policy of Government to reduce circulation as far as possible. The existence of the 2s. gold rate on the statute-book had the effect of preventing gold going into the Currency Office for exchange into rupees except at the fictitious official rate. In pre-war days the export surplus that remained after imports had been paid for and the necessary remittances made, was converted into currency and became available as capital for trade and industry. All this flow was now checked by the currency dam which came into being in 1920. Over and above it, there was between 1st January 1920 and 31st August 1924 a net contraction of currency amounting to Rs. 45,73 lakhs.

The Note Circulation

The following table gives the composition of the Paper Currency Reserve at the end of each financial year from 1919-20 to 1925-26 :—

Date.	Gross Note circulation.	Lakhs of rupees. Silver.	Gold.	Securities. India.	England.	Percentage of total metallic reserve to gross note circulation.
31st March 1920	1,74,52	39,85	47,81	19,59	67,27	50·2
31st March 1921	1,66,16	65,56	24,17	68,08	8,35	54·0
31st March 1922	1,74,77	77,52	24,32	67,08	5,85	58·3
31st March 1923	1,74,71	87,06	24,32	57,48	5,85	63.7
31st March 1924	1,85,85	80,00	22,32	69 53	14,00	55·1
31st March 1925	1,84,19	76,75	22,32	65,12	20,00	53.8
31st March 1926	1,93,34	84,91	22,32	57,11	29,00	55·4

Sterling and Gold Rates

We shall notice how exchange had been faring all this time. The following figures will prove interesting :—

		Sterling		Gold.	
		s.	d.	s.	d.
1st January	1920	2	3/7-8	1	10
1st August	1920	1	10/5-8	1	5/5-16
1st January	1921	1	$5\frac{1}{4}$	1	0/15-32
1st August	1921	1	3/13-32	0	11/9-23
1st January	1922	1	3/15-16	1	1/25-32
1st August	1922	1	3/21-32	1	2/5-15
1st January	1923	1	4/1-32	1	3/9-32
1st August	1923	1	4/1-32	1	3/1-16
1st January	1924	1	5/5-32	1	3/1-16
1st August	1924	1	5/7-16	1	3/13-16
1st January	1925	1	6/1-16	1	5/21-32
1st August	1925	1	6/3-32	1	6/1-16

Opportunity of 1924

In September 1924 the rate was approximately 1s. 4d. gold. Efforts were made at the time by Sir Purshotamdas Thakurdas to introduce two bills providing for stabilisation at this rate, but they could make no progress owing to the paucity of days allotted to non-official bills. Sir Basil Blackett replying to certain questions on September 19th, 1924 said :—

> "The Government do not think that it will be in the interests of India to fix a new gold ratio for the rupee forthwith, at a time when countries like Holland, Switzerland and South Africa regard a return to the gold standard in their own case as a somewhat rash experiment until they are more certain of what will happen to sterling . . . . Moreover, before action can be taken very careful consideration must be

given to the question whether a rate of 1s. 4d. gold or some higher rate is most likely to be beneficial to India, regard being had to the interests of the consumer and the taxpayer as well as the other interests concerned."

Stringency in Money Market

Previously in July the Committee of the Bengal Chamber of Commerce had sent a strongly worded representation to Government complaining of stringency in the money market, in the course of which it was said :—

"Every progressive country required a steady increase year by year in its supply of currency and that it was this effective demand which could not under the existing system be met, that had brought about the present situation.

"With the fixing of the standard at 2s. the importation of gold or sovereigns for exchange at the Currency Office into notes had ceased to be a practical proposition ; nor does the sale to-day of Council Bills ordinarily result in an increase of currency, the Reserve Treasuries not being now in existence, and consequently it merely involves a transfer of funds from Public Deposits to other Deposits in the Imperial Bank."

In his reply in the Assembly, to which reference has been made, Sir Basil Blackett admitted the "serious disquietude at present in India in regard to the tightness of money and its possible effects during the coming busy season," but apart from a promise to use "to the fullest extent necessary their powers to issue currency against purchase of sterling" he said he was prepared to do nothing. The

seriousness of the situation was illustrated by certain figures quoted in the Assembly on the day which showed a considerable fall in the price of Government securities.

What India Office Wanted

There was at about this time an exchange of telegrams between the Government of India and the Secretary of State from which it would appear that the Finance Department successfully countered the serious intention of the authorities at the other end to push exchange above 1s. 6d. (sterling), the prevailing rate. The Government of India in their telegram of the 8th October 1924 said :—

> "We are convinced that the time has come when we should definitely decide against any attempt to push rupee above 1s. 6d. unless renewed fall in gold value of sterling takes place. It is now beginning to be realised generally that the stringency in the market is the direct outcome of Government action in contracting currency, or rather in placing strict limits on possibilities of expansion. The volume and importance of the opposition to this policy is increasing."

The Secretary of State was against pegging the upward limit of exchange from a self-evident motive. The Government of India's reply was :—

> "We think it highly improbable that the view could be taken by any Committee that higher exchange than 1s. 6d. is desirable . . . . Both Indian exports and industries would be adversely affected by any higher rate. We find already that Tata Iron and

Steel Company is seriously affected by rise in exchange. Further, we believe that an opportunity, which may not recur, is offered at the present moment of obtaining general acquiescence even in Bombay in a policy which will give us a permanently higher ratio than 1s. 4d. gold."

Having attained 1s. 6d. (sterling) by a policy of deflation during a period remarkable for successive good monsoons, the Government now took steps to maintain the rate at this level, so that when sterling reached parity with gold in due course, they could have "a permanently higher ratio than 1s. 4d. gold."

In January 1925 it was announced that it was "the intention of the Government to appoint an authoritative committee, to consider the question as soon as world economic factors appear sufficiently stable to justify the formulation of a new policy." There was some discussion at this time in the Assembly on the subject of currency and exchange, and there was an amendment of the Paper Currency Act providing for an increase of note-issue against created securities. It may be mentioned that since August 1924 there had been some expansion of currency in view of the Government's resolve not to let exchange rise above 1s. 6d. sterling.

1s. 6d. Gold Reached

With England's return to the Gold Standard in June 1925 parity between sterling and gold was restored and on 25th August 1925 a Royal Commission "to examine and report on the Indian Exchange and Currency system and practice" was appointed. It is apparent from what has been said above that the authorities had long before made

up their mind to attain "a permanently higher ratio than 1s. 4d. gold", and that having attained 1s. 6d. sterling which became in due course 1s. 6d. gold they appointed the Commission presenting it with a *fait accompli* at the very moment when they were commencing their work.

India Office Again

But the authorities in England were still anxious to push exchange further up. As the first step in that direction they suggested on 24th September 1925 the moving of the rate to 1s. 6-7/32d. which was "sufficiently near 1s. 6d. gold import point and would not indicate any change of policy." The Government of India, however, stood resolutely against the proposal, and replying on the 9th October 1925 said :—

> "We do deprecate proposal to allow exchange to move to 1s. 6 7/32d. This figure is somewhat above the actual gold point and we are convinced that our action would be misunderstood by market and would be regarded as a change of policy, and the effect almost certainly would be an avalanche of sterling sales in anticipation."

Offer of Reverse Councils Revived

In his Budget speech on 1st March 1926 Sir Basil Blackett observed :—

> "The rupee-sterling exchange has shown persistent strength almost throughout the year. . . . The busy season of 1925-26 promises to be remarkable for an almost complete absence of stringency in the money market."

By the third week of March 1926, however, there had come to be a pronounced weakening of exchange. Suggest-

ing the sale of Reverse Councils to deal with the situation, the Secretary of State said :—

> "You will agree that this should, if possible, be avoided as the sale of Reverses would be open to much public misunderstanding and misrepresentation. I suggest, therefore, for consideration whether before this stage is reached, some contraction of note issue should not . . . be effected forthwith."

The rupee was maintained at 1s. 6d., in the circumstances, by the deflation of the currency by Rs. 8 crores during April 1926, and by the offer to sell Reverse Councils at 1s. 5¾d. Thus the rupee was prevented by administrative action from finding its natural level downwards.

In January 1922 Sir Malcolm Hailey as Finance Member had said :—

> "I can give the Assembly this much guarranttee, at all events, that we should not reopen the sale of Reverse Councils in order to maintain exchange or to raise exchange in the manner suggested, without first coming to this Assembly."

As the offer to sell Reverse Councils was actually made without any reference to the Assembly it was criticised in some quarters as nothing short of a breach of faith. The defence urged on behalf of Government was that as they had prevented the rupee from rising above 1s. 6d., they were justified in preventing it from falling below 1s. 6d. In any case, the offer of Reverse Councils had the effect of obscuring the realities of the currency situation. The following extract from Sir Stanley Reed's evidence before the Currency Commission (1926) will explain this:—

"Q. You consider that the Government of India should check the rise, but should not check the fall ?

A. In that particular case, yes. As the Government of India were refusing through the legal fiction rupee to practise the natural corrective to a rising exchange and that is to issue rupees in return for gold, I think they were justified ; and I think their action was entirely beneficial in using their resources to prevent the rise of the rupee above 1s. 6d. gold and I think that did the greatest service to the whole of India. My regret at the Government of India offering Reverse Councils now is that it has deprived us of the opportunity of testing by practical experience whether the 1s. 6d. rate is the rate to which prices have adjusted themselves or whether it is an inflated rate due to these artificial conditions."

No actual sale of Reverse Councils took place, but a very large deflation was effected in order to maintain the 1s. 6d. rate. Between March 31, 1926 and March 31, 1927 there was a net return of currency to the extent of Rs. 23,16 lakhs against Rs. 7,01 lakhs in the preceding year. The net contraction of currency exceeded 29 crores. The previous year had witnessed an expansion of a crore.

Hilton Young Commission Report

The report of the Currency Commission was published in August 1926. With the exception of Sir Purshotamdas Thakurdas who wrote a Minute of Dissent, the Commission recommended stabilisation at the rate of 1s. 6d. "The opportunity for reversion"—they said—"to the historic rate of 1s. 4d., if it ever existed, is gone," and they were against disturbing the rate which prevailed. Their other recommendations were chiefly for the establishment of a Reserve Bank and the introduction of a Gold Bullion Standard.

Why India Wanted 1s. 4d.

The Indian point of view found full and frank expression in the Minute of Dissent of Sir Purshotamdas Thakurdas. The main ground on which the majority had recommended the rate of 1s. 6d. was that prices, wages, etc. had so substantially adjusted themselves to it that "the least injury would be done to all interests by adhering to that rate." Sir Purshotamdas subjected that argument to a close examination and came to the conclusion that the greater part of the adjustment was yet to come, that exchange had never been allowed in recent years to find its own natural level and that the best interests of the country demanded a reversion to the permanent rate of 1s-4d. recommended by the Fowler Committee, which had held the field so long and even weathered a storm or two. The main ground on which Indian public opinion opposed the change was that it amounted to tampering with the standard which had obtained since 1893. "A standard being what it is, to measure weights or lengths or values with, it stands to reason that once laid down by law, it cannot be lightly changed. As any change in the standard of weight or length would constitute an injustice so would any change in the standard of value... The rupee is a token coin and its intrinsic value does not matter, but it cannot pass for more or less than 7.53344 grains of gold (1s 4d) without constituting a currency fraud. The giver of a promissory note of 100 rupees bound himself to give 753 grains of gold. Any enactment laying down a higher gold value for the rupee would oblige him to give more gold than he undertook to pay and than the holder was entitled to receive. Herein lies the injustice of a change in the ratio." This makes the matter as plain as it can be made and explains the resistance offered to the change.

The Ratio Bill in Assembly

The recommendations of the majority were at once accepted by the Government, but as there was a strong desire in the Assembly for the postponement of the matter it came up for discussion during its Delhi session. It is difficult to think of any subject of legislation in recent times which aroused such keen public interest and was debated with such strength of feeling on the popular side as the ratio question. The voting was 68 for and 65 against 1s. 6d., though even that is not enough to indicate the true character of the Government's victory. Of those who voted for 1s.6d. as many as 40 were nominated members, while those on the other side were all elected representatives of the people.

CHAPTER III

1927—1930

Outside the Legislature, the factors have not been so helpful to Government and the maintenance of the new ratio has been a difficult task. In his very first Budget speech Sir George Schuster, the present Finance Member, appealed to those who favoured 1s. 4d. in the following terms :—

> "You have done your best for what you thought right. Whether the course actually taken was right or wrong, it would be a far greater evil now to alter it and Government are bound to use all the resources at their command to prevent its alteration. The time has come therefore to look to the future in which the interests of the country demand, above everything, that we should pull together to work out our salvation on the present level. Response to such an appeal would bring honour to all who accorded it."

The time that has elapsed since then has not brought any accretion of strength, rather it has made the position weaker. Speaking on the ratio question, the Finance Member in his last Budget speech on February 28, 1931 said:—

> "The new circumstances have not lessened our duty to defend the position in India's interests. They have rather made it stronger. That defence must be continued; but if we could achieve that common effort of which I have spoken, it would be possible to divert the energy and resources which must now be expended in mere defence, into a constructive programme for the benefit of trade and of the economic life of the country which so badly needs it."

The meaning of it all is plain. Exchange cannot support itself and it requires all the props that Government can find for it.

Persistent Weakness of Exchange

Since its stabilisation in March 1927, exchange has been able to see just a few months of security, particularly during 1928. For the most part the rate has been persistently below the 1s. 6d. level and at times the forward rates have even sunk below the lower gold point. Government have been supporting it by artificial stringency at the cost of trade and industry.

Currency Contracted

It was, we may recall, in March, 1926 that exchange showed signs of weakness and the Government had to come to its rescue with an offer to sell Reverse Councils. Ever since then contraction has been the order of the day, with the exception of 1928-29. The following table gives the net expansion or contraction during these years:---

	Lakhs of rupees.
1926-27	– 28,77
1927-28	– 4,10
1928-29	+ 1,90
1929-30	– 32,41
1930-31 (to 7th Feb.)	– 36,29
	99,67

The return of rupees between 1st April 1926 and 31st December 1930 amounted to about 64 crores while the note circulation decreased by about 32 crores.

The composition of the Paper Currency Reserve in recent years has stood thus:—

Date			Gross note circulation	Silver	Gold	Securities India	Securities England
31st	March	27	1,84,13	104,47	22,32	51,77	5,57
,,	,,	28	1,84,87	106,38	29,76	44,96	3,77
,,	,,	29	1,88,03	99,89	32,22	45,23	10,69
,,	,,	30	1,77,23	1,10,96	32,27	33,85	15
15th	,,	31	1,57,62	1,22,61	24,77	10,24	Nil

Dissipation of Gold

The first step to give effect to the recommendation for a 2s. rate was taken on the 2nd February 1920, while the last of the sales of Reverse Councils took place on the 28th September 1920. If we confine our examination to these two dates, the decline in gold and sterling securities in the Currency Reverse was Rs.76,79 lakhs which may be called the measure of the dissipation caused by the attempt to realise the 2s. rate.

Coming to more recent times, on 31st March 1926 we had in the Paper Currency Reserve

Gold		Rs. 22,32	lakhs.
Sterling Securities		Rs. 29,00	,,
	Total	Rs. 51,32	,,

As from 1st October 1920 to 31st March 1927 the accounts were on the 2s. basis we have to revalue the amount at 1s. 6d.; and we get Rs. 68,43 lakhs as the total amount of our gold resources in the Paper Currency Reserve on 31st March 1926. On 31st March 1927, the total was (at 1/6) Rs. 37,18 lakhs, which means that

Rs. 31,25 lakhs worth of gold assets had been frittered away. Turning for a moment to the Report of the Controller of Currency for 1926-27 we find: "During the year Government kept itself in funds by the transfer to the treasury balance of the Secretary of State of the surplus remittances of previous years which were held in the P. C. R." The total is given as Rs. 23,43 lakhs which is, of course, on the 2s. basis.

The net expansion or contraction against gold or sterling securities in the subsequent years up to 14th March 1931 was approximately Rs. 26,51 lakhs.

So between 31st March 1926 and 14th March 1931 the net contraction against gold and sterling securities has been Rs. 57,76 (31,25 + 26,51) lakhs. There need have been no frittering away of these resources but for the difficulties of remittance through the market for which 1s. 6d. has been responsible.

Sales of Silver

Mention may be made here of the sale in recent years of silver from the Paper Currency Reserve. The Currency Commission (1926) recommended a substantial reduction of the silver holding which they found excessive. Speaking of rupees they said: "They are clearly undesirable as a reserve asset and should therefore be got rid of deliberately and be replaced by assets of a more eligible character." Their scheme contemplated the raising of the percentage of gold in the Reserve, and they recommended that "during this period no favourable opportunity of fortifying the gold holding in the reserve should be allowed to escape".

According to the statement of the Finance Member in the Assembly on February 28 last, about 90 million ounces of silver had been sold since 1926. We have seen how the

price of silver reached unprecedented heights about 1920. Since then there has been a phenomenal fall. The highest price in London per standard oz. in recent years has been as follows :—

	pence
1920	89½
1921	43 3-8
1922	37 3-8
1923	33 11-16
1924	36 1-16
1925	33 7-16
1926	31 13-16
1927	28
1928	28 7-8
1929	26 7-16

Since 1929 the fall in price has been about 50 p. c., the present quotation being 13 13/16d. Taking the price on March 31, 1926 to be 100, the figure at the end of January 1931 was 46·3.

The majority of the Babington-Smith Committee pleaded the high range of silver prices and the importance of safeguarding the token character of the rupee in justification of the rate recommended by them. On this point, as on many others, history has vindicated the Indian member who in his Minute of Dissent held that "the high world price of silver can only be regarded as wholly artificial, and consequently as a reason for such a drastic step as the alteration of the money standard ratio between rupees and the sovereign has no weight." In 1926 those who were for 1/6 could have no such justification as the dangerously high price of silver, but the same argument was employed by them, though in a different form. "In

framing our proposals," they wrote, "we have deemed it prudent to envisage the possibility of a material rise in the price of silver at some future time." Sir Purshotamdas was not much impressed with the seriousness of this view and wrote: "The evidence of the American witnesses in this connection is illuminating and indicates that inasmuch as silver is now mined mainly as a by-product of various ores, the anxiety of silver holders should be rather to sell it at or near the present price of 30d. than to expect a rise." With silver to-day about 13d., the course of history has again been a vindication of Indian opinion supporting 1-4. That, by the way, is remarkable.

We are not concerned here with the controversy regarding the sales of silver by the Government. One thing, however, may be noted. Silver thus sold has not been replaced by gold in the Reserve. Of late the sales have been utilised for contraction of currency here.

Depression and Exchange

For about a year now the country has been suffering from the effects of the world depression, but the decline in prices here has been steepened by the high rate of exchange.

Comparing the prices in September 1930 with those in April 1926 Mr. D. P. Khaitan, President of the Indian Chamber of Commerce, Calcutta, wrote :—

> "Cereals have dropped from 139 in April, 1926 to 96 in September, 1930; pulses from 140 to 111; tea from 203 to 105; oilseeds from 133 to 117; mustard oil from 111 to 95, raw jute from 146 to 53, raw cotton from 148 to 80; hides and skins from 121 to 72. In the case of these commodities, it should be

emphasised that the prices taken into consideration in the compilation of the index numbers of the Department of Commercial Intelligence are the wholesale prices prevalent in Calcutta. As the railway freights ruling now are much higher than what they were in July, 1924, the present heavy decline in Calcutta prices denotes a really more severe effect on the agriculturists in the rural areas than what appears from the above figures. When to this is added the fact that land revenue has also increased in these 15 years, the prices which the agriculturists must be realising are drastically below the 1914 figures. It should be noticed that while the general index number of wholesale prices in Calcutta is 111 for September, 1930, most of the staple products have their index number well below 100; that the index for all commodites at 111 is due to higher prices ruling for imported commodities. In other words, the decline in the value of Indian produce is far more steep than what has occurred in the case of foreign products."

Official confirmation of the view expressed towards the end of this quotation has not been lacking. The Viceroy in his speech at the Federation of Indian Chambers last year referred to the point. The speech of Sir George Schuster while introducing the Budget for 1931-32, admitted that India had been hard hit by the heavy fall which the prices of exports relatively to those of imports had registered. "The fall in the former," he said, "between September 1929 and December 1930 was 36 per cent and the fall in the latter 16 per cent. India may therefore perhaps be said to be going through the worst time now. She has felt the severity of the fall in the

case of what she has to sell, but has not obtained a corresponding advantage of the fall in prices of what she has to buy." This means, of course, that with the same volume of exports India can only buy a much smaller quantity of imports.

Another Prophecy Fulfilled

In his Minute of Dissent, Sir Purshotamdas, referring to the apprehended fall in gold prices, wrote :—

> "If the rupee is to be stabilised at 1s. 6d., that fall will be aggravated if gold prices themselves fall from the present level. The evidence of the distinguished witnesses from America indicates that America is anxious to maintain the present level of gold prices ; that a rise is certainly not to be looked for ; if anything a fall is not improbable. My colleagues themselves in paragraph 36 of the Report refer to the apprehension of two distinguished experts (Professor Cassel and Mr. Joseph Kitchin) in this connection. If gold prices fall—and Indian prices must follow such a fall—India will be faced with a still bigger fall—the double effect of the operation of the present rate of 1s. 6d. and also the world fall. I cannot but contemplate such a prospect with very serious misgivings, for it will hit the Indian producer to an extent beyond his capacity to bear. In a word, it will hit, and hit very hard, four-fifths of the population of the country that exists on agriculture."

The apprehension has materialised and the masses are admittedly "going through the worst time now."

Mr. C. H. Kisch, in a memorandum submitted to the Currency Commission (1926) observed: —

> " If any substantial fall in world prices is likely, the ratio, determined in the light of existing factors, might prove higher than would be conducive to India's economic interests in the long run, or might even conceivably be beyond the power of Government to render effective in the end."

The Calcutta index number for December 1930 was 101 ; but in official pronouncements the emphasis now is not on the regulation of the internal price-level by means of exchange but on the undesirability of any change "amidst all the present uncertainties." Sir George Schuster recently said :—

> " If once the country, having adopted stability and accepted a statutory obligation, repudiates that obligation in order to meet difficulties of the moment, what confidence can anyone have in the future that such a step will not be taken again."

This almost reads like an extract from the utterances of those who were vehemently opposed to 2s. in 1920 or to 1s. 6d. in 1926-27. The difficulties of the War period were little more than 'difficulties of the moment' ; and there was nothing in the situation, they said, to justify any repudiation of the kind recommended by the protagonists of a rate other than 1/4d.

Treasury Bills

In pursuing a policy of dear money, Government have maintained interest rates at a considerablly high level and

have been drawing funds off the market by issue of treasury bills at expensive rates. These bills were re-introduced in August 1927 after the failure of the Rupee Loan of the previous month, and have played an important part in the maintenance of the exchange rate. Their growth has been appalling. The total of such bills outstanding during the week ending 13th February 1931 was over 55 crores as against 36 crores at the end of February 1930. As regards the rate of interest it has been said that "the rate which the Government have been paying for their three months accommodation has been anything like 1 per cent higher than the rate at which banks have been able to get deposits for a like period." The policy, according to an official statement, "has not only had an adverse effect on Government finances but has also reacted unfavourably on private traders." The stringency felt in the Indian money market can be realised from a comparison of the figures in the following table :—

Bank Rates % at end of December.

	1927	1928	1929	1930
London	4½	4½	5	3
New York	3½	5	4½	2
Amsterdam	4½	4½	4½	3
Swiss	3½	3½	3½	2½
Calcutta	7	7	7	6

On February 14, 1931 the rates were :—

London	3
New York	2
Amsterdam	2½
Swiss	2
Calcutta	7

Government Finances

The adverse effect of the currency policy on Government finances is reflected in the addition to the unproductive debt and the recent increase in taxation.

The following figures will elucidate the position :—

	31st Mar. 29.	31st Mar. 30.	31st Mar. 31.
		(Crores of rupees)	
Treasury bills in the hands of the public.	4.00	36.04	45.00
Treasury Bills in the Paper Currency Reserve.	39.15	29.21	5.65
Total interest-bearing obligations of the Government	1,074.46	1,136.48	1,160.41
Total interest-bearing obligations not covered by assets	170.61	177.38	193.91

The increase of 16½ crores over the balance on the 31st March 1930 in the balance of interest-bearing obligations not covered by assets, etc. is, neglecting various balancing items, due mainly to

5·24 crores loss on silver sales
12·68 ,, uncovered revenue deficit

Among the items of deterioration as compared with the Budget which go to make up the deficit (revised) for 1930-31 there is one on the Finance headings amounting to Rs. 1,38 lakhs. So far as this year's budget is concern-

ed, the loss of profit owing to the decreased volume of currency accounts for a net deterioration as compared with the budget for 1930-31 of Rs. 2,27 lakhs while there are other items, such as higher charges on ordinary debt due to increased rate of interest etc., the total deterioration under the Finance headings being 3,76 lakhs.

Since 1928-29 the total interest charges paid by the Central Revenues, after certain deductions, show an increase from Rs. 10,20 lakhs to Rs. 11,93 lakhs (1931-32 Budget). The increase would have been greater but for certain changes in the method of calculation recently introduced which have shifted part of the burden on to the Commercial Departments.

Rupee and Sterling Borrowings

Between 31st March 1926 and 31st March 1931 the growth in the volume of total interest-bearing obligations in India has been from 539·81 crores to 643·40 crores and in that of rupee loans particularly, from 368·29 crores to 417·85 crores.

So far as sterling loans are concerned, between May 1923 and the end of 1927 there was no borrowing and such increase as there was, only represented the liability assumed by the Secretary of State for Indian Railways Debenture stocks on the terminiation of contracts with the E. I. Ry. and the G. I. P. Ry. Since January 1928 there has been a growth which is illustrated by the following figures of sterling loans (excluding temporary loans) :—

31st March 1927	£.	265·09	millions
31st March 1931	£.	315·97	,,
Increase	£.	50·88	,,

Loans in Interest of the Ratio

The actual borrowings in 1930-31 represent a deterioration of about 64½ crores as compared with the budget estimates. The figures are :—

	crores of Rs.
Excess of Rupee borrowing over Budget estimate	6·21
,, Sterling ,, ,,	33·33
,, Treasury Bills outstanding ,,	25
	64·54

The contraction of currency against rupee securities or *ad hocs* was responsible for about 34 crores of this deterioration.

The Majority Report of the last Currency Commission, while considering the effects of a reversion to 1/4 said :—

> "What is clear is that the immediate loss from the standpoint of public finance would be considerable and would require to be made up by increases in taxation."

The opponents of that veiw are now able to point out that the statutory rate of 1/6 has not only affected trade and industry adversely but has also resulted in causing a direct loss of revenue to the treasury and an increase of taxation to fill the gap.

The indirect loss to Government revenues occasioned by the 1/6 ratio is, of course, additional.

External Trade

So far as external trade is concerned, the relevant

figures are as follows :—

Private Merchandise

Lakhs of Rupees.

	Exports.	Imports.	Net Exports.
1927-28	3,23,69	2,46,73	81,96
1928-29	3,37,96	2,51,49	86,47
1929-30	3,17.93	2,38,91	79,02

Net Imports of Treasure

Lakhs of Rupees.

	Gold.	Silver.	Total.
1927-28	18,10	13,85	31,95
1928-29	21,20	13,04	34,24
1929-30	14,22	11,89	26,11

The visible balance of trade in favour of India (including private imports of treasure) for the first 9 months of 1930-31 was 34·43 crores comparing with 41·62 crores for 1929. The value of trade registered an enormous decline—exports of merchandise being down by 61 crores, as compared with the previous year and imports by 56 crores.

Difficulty of Remittance

This balance of trade in favour of India has not however helped Government in effecting remittance of funds. The actual fact is that in recent months Government have had to make considerable sales of sterling to prevent exchange going down. The figures given in the Explanatory Memorandum on this year's Budget are :

	Revised 1930-31 (in millions of £.)
Purchase of Sterling	5·39
Sale of Sterling	6·00

Flight of Capital

The phenomenon which manifests itself in this persistent weakness of exchange may be studied from different angles. There is the depression of which Indian businessmen and industrialists have been complaining and which began long before the Wall Street collapse in America, and this chiefly because of the reduced purchasing power of the people for which the appreciated rupee is responsible. There is the loss of confidence in Government credit as a result of the policy dictated by the ratio. With all the contraction of currency Government cannot create a keen demand for the rupee. Rather, their handling of the situation, both economic and political, has been inducing a flight of capital from this country. Government find themselves in a vicious circle. They must maintain 1s. 6d. they say; and the very policy which they pursue to that end makes the task more difficult than ever.

CHAPTER IV

CONCLUSION

The history of Indian currency for about fifty years has been, in a way, the history of attempts, successful or otherwise, to appreciate the rupee-exchange. Our survey began with 1s. 4d. as the statutory rate, but there had been attempts before its adoption to have exchange higher still. To go no farther back than 1893, the Government's proposal before the Herschell Committee which originally recommended this rate was for 1s. 6d. even though the *de facto* rate at the time was only between 14d. and 15d. There was after that a steady fall until on 23rd January 1895, Council Bills were sold at 1s. 0 13-32d. It was contraction of currency which forced exchange up to 1s. 4d. about 1898 when the Fowler Committee by a majority recommended stabilisation at this rate. The minority consisting of Messrs. Campbell and Muir did not think "that the experience of the last six years justifies the adoption of a 1s. 4d. ratio" and in their Minute of Dissent urged a change to 1s. 3d. They were particularly opposed to the higher ratio because of its "effect as an unfair tax on native production while conferring a bounty on imported goods." But the opposition did not succeed and 1s. 4d. was adopted as fixing the relation of the rupee to the legal standard to which India had gone over.

That rate remained effective until the 28th August 1917, when the Government raised it to 1s. 5d. The rate was now made to follow the price of silver, and by six

successive steps it was raised to 2s. 4d. sterling on the 12th December 1919. The more serious part of the rise came after the war was over. The United States became a free market for gold on the 9th June 1919, and the gold production of South Africa became available to the highest bidders in London from the 18th July 1919; and it was after these events that the rate was raised from 1s. 8d. by four stages to 2s. 4d. sterling.

The Indian money standard had been changed from silver to gold in 1893. The new standard came to be represented by the sovereign to which the rupee was connected at the rate of 15 to 1. In other words, the rupee was nothing more or less than a silver note standing for 1s. 4d. gold. To change the rupee value of the sovereign was to violate the sanctity of the standard. Every rise in the exchange meant cutting down the value in rupees of all stocks of Indian produce, imposing handicaps on indigenous industry in competition with industries abroad, and affecting all contractual relations to the detriment of the debtor class.

If the pre-war system broke down it was because the belligerent nations could not meet their commitments to India in the usual manner. India could not get the gold to which she was entitled. While some countries, including the United States, with a population of 114,000,000 increased their gold reserves by £387,000,000, India with a population nearly three times as large had to be content with £. 26,000,000 which was the total of net imports on private and Government account for the five years ending March 31, 1919. One alternative would have been

the acceptance of deferred payments, but this method of adjusting the favourable trade balance did not even receive serious consideration at the hands of the Government. What they wanted was to maintain a show of convertibility of their note issue, and they went on coining and giving out rupees against sterling as before. The policy pursued in this connection had its own effect on the silver market; but even when prices soared to unprecedented heights, the Government did not desist from this course. The rupee was a token like the shilling in England, and if silver became too dear for this purpose, the right way evidently was to reduce the fineness or use a cheaper material, as in fact was done in other countries. But the only remedy which our authorities could think of was to raise the exchange value of the rupee, or what comes to the same thing, to reduce the number of rupees to be had for a sovereign. English readers can have a correct idea of all this if they can imagine a situation in which with an exclusively token currency they are told one day that in view of the high price of silver, the ratio of shilling to the pound sterling has been brought down to 15 to 1, and the next day that it has been changed to 10 to 1.

In 1919 the War was over, but there was an abnormality of conditions due to a variety of causes. That, however, did not deter the Government from appointing a Committee to advise in regard to the future of exchange and currency, nor the majority of the Committee from advising stabilisation of the rupee-exchange at 2s. gold, which meant a considerably higher sterling parity. The Indian member's protest was of no avail. Those with whom the final decision lay were anxious to perpetuate the high exchange which prevailed and they considered the opportunity too

good to be lost. This explains the almost uncanny haste with which the committee of inquiry was appointed, and the rejection of all advice given against the course which the majority of the Committee recommended.

But natural forces proved too strong for those who were out to fix exchange at 2s. ; and the attempt failed—not before, however, £. 55½ millions of Reverse Councils had been sold at disastrous rates and a loss variously estimated between 36 and 40 crores of rupees incurred. But the failure of the attempt did not lead to its formal abandonment. In fact, though world prices had been falling and exchange at the time was only 1s. 4. 15-16d. gold, the Government proceeded in September 1920 to place on the statute-book, despite earnest entreaties in the Imperial Legislative Council, a measure linking rupees to the sovereign at the ratio of 10 to 1, which meant, of course, a 2s. gold rate.

As the oppositionists had feared, the acceptance by the Government of the rate recommended by the majority proved something calamitous for this country. Not only was there an enormous dissipation of gold resources and a direct loss to the treasury of several crores, but exports fell off and imports were so largely stimulated that the trade balance turned heavily against India. When the attempt failed and there was a collapse of exchange within twelve, months from 2s. 4d. to 1s. 3d. sterling, the importers had a most critical time and naturally charged the Government with a breach of faith.

In September 1924, the exchange rate was about 1s. 4d. gold, ranging between 1s. 5½d. and 1s.6d. sterling.

Here was an opportunity to restore the long-established legal standard, but the Government had no desire to avail themselves of it. What they really wanted was to screw exchange further up by the policy of dear money, and then to stabilise it at the higher level. So they said in effect; "The time is hardly suitable; let us wait a little longer". It must be said to the credit of the Government that they stood against the design of the authorities at the other end to push exchange beyond 18d., though even they were looking for, in their own words, "a permanently higher rate than 1s. 4d. gold". About June 1925 sterling resumed parity with gold. The time according to the Government was ripe for stabilisation and a Commission was appointed in August to examine and report on the Indian exchange and currency system.

The Government by their currency manipulations, involving India's monetary starvation during a period noted for a series of good harvests in succession, attained 1s. 6d. gold about June 1925. But even while the Commission was sitting, there was a sagging of the rupee, and without any reference to the Legislature, the Government who had in 1922 given an undertaking not to re-open the sale of Reverse Councils without first coming to the Assembly, came out with an offer to sell them to prevent exchange falling below 1s. 5 3/4d. It may, therefore, be said that the rate was reached and maintained by administrative action, and there was little or nothing natural about it.

The Commission reported in July 1926, recommending by a majority stabilisation at 1s. 6d. chiefly because, as it said, this was the *de facto* rate and prices had

already attained a substantial measure of adjustment. Sir Purshotamdas Thakurdas adduced a mass of evidence to prove that the greater part of the general adjustment was still to come; but neither this nor any of the other arguments could modify the view of the majority or of the authorities who proceeded at once to give effect to it.

On the day of voting on the Ratio Bill, 65 elected members could not defeat it because the nominated element of 40 members, including the official *bloc* weighted the scales against them. And yet the victory for the Government was only a Pyrrhic one.

It will be the task of the future historian to assess its cost. Meanwhile India suffers and her grievances multiply.

Contraction Since 1920.

The one aim of the currency policy has been to keep the screw on too tight in the interest of the high ratio. The average annual absorption of rupees, notes and sovereigns in the pre-war quinquennium had been Rs. 22¾ crores while for the quinquennium ending 1919-20 the figure, excluding absorption of sovereigns, was Rs. 49½ crores. The state of things since then is brought out in the following summary :—

1st January 1920 to 31st March 1921.

(In lakhs of rupees.)

Expansion :	Gold purchased by the Secretary of State and remitted to India.	19,52
	Gold acquired by Government	20,80

	Issue of Indian Treasury Bills.	37,95	
	Total expansion.	78,27	
Contraction :	Sales of gold by Government.	43,66	
	Discharge of Indian Treasury Bills in the Paper Currency Reserve.	4,37	
	Transfer of sterling securities in London to the Secretary of State's cash balance.	68,72	
	Total contraction.	116,75	
	Net contraction between 1st January 1920 and 31st March 1921		38,48
1921-22.			
Expansion :	Issue against internal bills of exchange under emergency provisions.	2,00	
Contraction :	Discharge of Indian Treasury Bills.	3,30	
	Transfer of sterling securities in London to the Secretary of State's cash balance.	2,50	
	Total contraction.	5,80	
	Net contraction in 1921-22.		3,80

1922-23.			
Contraction :	Discharge of Indian Treasury Bills in the Paper Currency Reserve.	7.60	
	Issues against internal bills withdrawn.	2,00	
	Total contraction in 1922-23.		9,60
1923-24.			
Expansion :	Issue against sterling securities purchased.	12,00	
	Issues against internal bills of exchange under emergency provisions.	12,00	
	Total expansion.		24,00
Contraction :	Transfer of sterling securities in London to the Secretary of State's balance.		5,85
	Net expansion in 1923-24.		18,15
1924-25.			
Expansion :	Issue against internal bills of exchange under emergency provisions.	8,00	
	Issue against sterling securities purchased.	6,00	
	Total expansion.		14,00

Contraction :	Issues against internal bills of exchange withdrawn.	12,00	
	Against Treasury Bills	40	
	Net expansion in 1924-25.	1,60	
1925-26.			
Expansion :	Issue against sterling securities purchased.	9,00	
Contraction :	Issues against internal bills of exchange withdrawn.	8,00	
	Net expansion in 1925-26.		1,00
1926-27.			
Expansion:	Issue against internal bills of exchange under emergency provisions.	2,00	
Contraction:	Transfer of sterling securities in London to the Secretary of State's cash balance.	23,43	
	Discharge of Indian Treasury Bills.	7,34	
		30,77	
	Net contraction in 1926-27.		28,77
1927-28.			
Expansion:	Issue against internal bills of exchange under emergency provisions.	5,00	
Contraction:	Transfer of sterling securities to the Secretary of		

	State's cash balance.	5,10	
	Discharge of Indian Treasury Bills.	4,00	
		9,10	
	Net contraction in 1927-28.	4,10	
1928-29.			
Expansion:	Issue against sterling securities purchased.	3,50	
	Issue against gold.	2,45	
	Issue of Indian Treasury Bills.	95	6,90
Contraction:	Issues against internal bills of exchange withdrawn.		5,00
	Net expansion in 1928-29.		1,90
1929-30.			
Expansion:	Issue against gold.	5	
Contraction:	Transfer of sterling securities to the Secretary of State's cash balance.	15,77	
	Discharge of Indian Treasury Bills.	11,75	
	Against direct transfers of silver bullion for sale.	2,94	
	Issue against internal bills of exchange withdrawn.	2,00	
		32,46	

Net contraction in 1929-30. 32,41

1930-31

The contraction between 1st April 1930 and 7th February 1931 has been Rs. 36,29 lakhs.

Between 1st January 1920 and 7th February 1931, the total contraction was about Rs. 154 crores. As against this, there was an expansion of about 23 crores mostly in the years preceding the attainment of 1s. 6d. gold. The net contraction, therefore, since the 1st January 1920 has exceeded Rs. 130 crores.

Our Present Gold Assets

As for the reaction of the currency policy on our gold assets, let us glance at the following table:—

Paper Currency Reserve on 31st March

	(Lakhs of Rupees).				
	Gold.	Sterling Securities.	Total.	£ Million.	Percentage of gold and sterling securities to total note circulation.
1914	31,59	4,00	35,59	23·73	53·8
1915	15,29	4,00	19,29	12·86	31·3
1916	24,16	10,00	34,16	22·77	50·4
1917	18,67	38,49	57,16	38·11	66·2
1918	27,52	51,48	79,00	52·67	79·2
1919	17,49	82,50	99,99	66·66	65·1
1920	47,81	67,27	115,08	76·72	65·9

	(Lakhs of Rupees).				Percentage of gold and sterling securities to total note circulation.
	Gold.	Sterling Securities	Total	£. (Million.)	
1921	24,17	8,35	32,52	32·52	19·6
1922	24,32	5,85	30,17	30·17	17·3
1923	24,32	5,85	30,17	30·17	17·3
1924	22,32	14,00	36,32	36·32	19·5
1925	22,32	20,00	42,32	42·32	22·9
1926	22,32	29,00	51,32	51·32	26·5
1927	22,32	5,57	27,89	27·89	15·1
1928	29,76	3,77	33,53	25·15	18·1
1929	32,22	10,69	42,91	32·16	22·8
1930	32,27	00,15	32,42	24·32	18·3
1931 (15th Mar.)	24,77	—	24,77	18·58	15·7

We find that the position on the 15th March 1931, so far as gold assets are concerned, was actually worse than on 31st March 1914, the deterioration having been in sterling more than 5 millions. If we add to the decrease approximately £9 millions as the amount which should have been added from the sale of silver in the Reserve, the dissipation caused by the currency policy from time to time over the period 1914 to 1930 would come to about £106 millions. Of this about £51 millions were frittered away in the attempt to stablise exchange at 2s. gold. The present rate is responsible for the dissipation of something like £42 millions, and we are not yet out of the wood.

One of the objections so far to the introduction of a gold standard and gold currency in India has been that it would retard the progress of monetary reconstruction in Europe, would upset world prices and would therefore be harmful both to India and the rest of the world. It has also been hinted that it would be impossible to obtain the necessary gold. While on such grounds India has been denied what is overdue to her, her own assets have been frittered away. The memorandum on gold standard for India, submitted by Mr. H. Denning to the Currency Commission (1926) and representing the result of disussions between Sir Basil Blackett, Mr. (now Sir) A. McWatters and himself put the total amount of gold required at about £103 millions. With a prudent husbanding of her gold resources, the Government would have enabled India to reach the goal without having to apply or appeal to the Bank of England or the Federal Reserve Bank of New York. What they did in effect was to throw the country behind and they will not even admit that the dissipation of about £103 millions of India's gold since the outbreak of War has been anything inconsistent with their role of trusteeship.

While the percentage of gold assets in the Paper Currency Reserve to the total circulation of notes on the 31st March 1914 was about 54 per cent., on the 15th March 1931 it was only about 16 per cent. The present position is in fact worse than that on 31st March 1901 when the percentage of gold—there were no sterling securities in the Reserve at the time—was about 29 per cent.

In the Reserve today the metallic backing as represented by silver shows a considerable relative increase as

compared with the figure for 1914. After adding the bullion value of this silver to the amount of gold assets the total percentage works out as under :—

Lakhs of Rupees.

	Gross circul. of notes.	Total amount of gold and sterling securi-eties	Approximate bullion value of silver in Reserve.	Percentage of last two columns to gross circulation.
31st March 1914	66,12	35,59	11,50	71
15th March 1931	157,62	24,77	31,00	35

So far as the Gold Standard Reserve is concerned, the present total is £ 40 millions as against £ 25½ millions on 31st March 1914, equivalent to 53 1/3 crores (Re. 1=1s. 6d.) and 38½ crores (Re. 1=1s. 4d.) respectively. This Reserve may be considered as earmarked against the amount of rupees outstanding. Since 1914 the rupee circulation, due to the heavy coinages of the War period, has considerably increased. On 1st April 1926, the amount thus outstanding, including the silver held by the Government in the Paper Currency Reserve, was estimated to be between 350 and 400 crores. Since then there has been a shrinkage in the volume due mainly to sales of silver by the Government, but the amount outstanding at present may be estimated to be higher than the amount in 1914, for which Mr. Shirras's estimate, exclusive of the amount in the Currency Reserve (nearly 20 crores) is Rs. 187 crores.

The increase in the size of the Gold Standard Reserve may therefore be overlooked in view of the increase in the number of rupees outstanding. To the extent that every rupee partly carries its own cover as represented by its bullion value, the position to-day is actually weaker than in 1914. The London price of silver in March 1914 was between 26 11/16d. and 27d. per standard ounce. The present quotation is about 13½d.—which represents a depreciation of nearly 50 per cent.

So ' sound ' and without any ' hidden weakness' is the condition of the business which is to be handed over to the Federal executive.

The Moral

Two months ago there was an attack by Mr. Lloyd George on the City financiers—chiefly the Bank of England—as being responsible for a precipitate return by England to the gold standard. The *Economist* whose editor was here as Financial Assessor to the Simon Commission in commenting on the speech said :—

"It would undoubtedly have eased our problem if we had devalued the £ and returned to gold at, say, $4.40 to the £., and we have repeatedly dissented from the ultra-Conservative view of the City that this would have been a breach of faith."

Here in India there was actually a breach of faith, but in the opposite direction. What was forced upon the country was not devaluation but 'plus-valuation', as one economic journal called it at the time for want of a better term in the English language for the extraordinary pheno-

menon. Complaining of the policy of dear money which hampers production, Mr. Lloyd George says that they cannot "build the City of God" because "the City of London occupies the site." India's grievance is much more substantial; yet without using such language one can say that until the transfer of Finance is real and complete, India cannot come to her own.

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